

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

JUL 9 1981

Applicant:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(6) of the Internal Revenue Code.

The evidence presented shows that you were incorporated [REDACTED], under the laws of the State of [REDACTED].

Article 4 of your Articles of Incorporation lists your purposes and powers and is quoted, in part below:

"...Promote increased efficiency and economy in member small businesses; to conduct educational programs for the improvement of small business personnel; represent small businesses to voluntary and public organizations as well as to the general public; conduct programs of fact finding and reporting; encourage scientific research and professional education; coordinate small businesses and their operations with the efforts of related organizations; cooperate with other organizations having similar purposes; and do everything lawfully possible to promote, preserve and improve the [REDACTED] small business and the free enterprise system."

"...organize and host fund raising programs and events including but not limited to providing certain services to the members and public."

"To engage in any kind of lawful activity and to do any other acts and things relating thereto or otherwise which may be found necessary or expedient and to exercise all powers granted to non-profit corporations by the laws of the State of [REDACTED]."

CODE	INITIALS	REVIEWER	REVIEWER	REVIEWER	REVIEWER	REVIEWER	REVIEWER
		[REDACTED]					
SUR NAME		[REDACTED]					
DATE		6-25-81					

[REDACTED]

Your Bylaws limit members to "Any owner, partner, shareholder, director, supervisor, manager, or employee involved in [REDACTED] small business operations." Directors are elected by the membership. The directors elect officers and adopt all amendments to the Bylaws.

Your activities are carried on through five divisions:

1. Division of Tax Accounting: Members contact this division for free answers and advice regarding specific tax and accounting problems. The division is available to help set up books of members.
2. Division of Legal Services: This division answers questions and gives advice to individual members. You indicate that you do not engage in litigation and do not make referrals. You lobby the state legislature regarding matters affecting the small businessman.
3. Division of Media: You intend to publish a quarterly magazine to include articles of "...finance, tax accounting, law and other special services and trends, advertisements and marketing advice." Distribution will be to members. It will be financed by "...Advertisements and dues." Your press release of [REDACTED] states the magazine's purpose is to "...Inform, entertain, educate and provide a marketplace for diverse buyers and sellers." "...Membership solicitation material states there "...will be a form you can use to submit a free, 20 word or less, classified advertisement in the quarterly magazine."

Currently your only publication is a quarterly newsletter for members.

4. Division of Sales and Insurance: The division solicits members and sells group insurance to members. You state that "...[REDACTED] salesmen are actively soliciting members. They are paid commission and bonuses."
5. Division of Finance and Management: The division directs the affairs of the corporation, does public relations work, and is working to set up a credit union for the members use.

Schedule C of Form 1024 requested you to "Describe any services you perform for members or others." Your response was:

"establish credit union, debt collection service thru legal division for member accounts, bookkeeping systems, information service on where to go to get things done. Debt collection is thru an attorney and not thru [REDACTED] or a collection agency per fee arrangements with the individual members. Accounting division available to help set up books of members. Credit Union is in the process of being applied for through [REDACTED] office."

Section 501(c)(6) of the Internal Revenue Code provides exemption for:

"Business leagues, chambers of commerce,...not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual."

Section 1.501(c)(6)-1 of the Income Tax Regulations provides that, for an organization to be exempt, its activities must be:

"...directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons..."

Section 1.501(c)(6)-1 of the Income Tax Regulations provides that:

"A business league is an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit...even though the business is conducted on a cooperative basis or produces only sufficient income to be self-sustaining..."

You are organized and operated primarily for the benefit of your members only; therefore, your activities cannot be said to be directed to the improvement of business conditions of one or more lines of business.

The majority of your activities involve rendering particular services for your individual members. Revenue Ruling 64-315, 1964-2 C.B. 147 holds that advertising which carries the names of members constitutes the performance of particular services; therefore, even your planned activities include rendering particular services.

[REDACTED]

You pay salesmen commissions and bonuses. Exempt Organizations are permitted to pay reasonable compensation for services rendered; however, when compensation is flexible, compensation could be unreasonable and result in inurement to the benefit of private individuals. You did not fully explain your debt collection service; however, it appears that you assign or appoint an attorney to perform that service. In that situation you enhance the attorney's income (provide inurement) even though actual payment for the service is made by the member to the attorney.

On the basis of the information submitted, we conclude that you are not exempt from Federal income tax under Code section 501(c)(6). Therefore, you are required to file Federal income tax returns on Form 1120.

If you do not agree with these conclusions, you may, within 30 days from the date of this letter, file in duplicate a brief of the facts, law, and argument that clearly sets forth your position. If you desire an oral discussion of the issue, please indicate this in your protest. The enclosed Publication 892 gives instructions for filing a protest.

If you do not file a protest with this office within 30 days of the date of this report or letter, this proposed determination will become final.

If you agree with these conclusions or do not wish to file a written protest, please sign and return Form 6018 in the enclosed self-addressed envelope as soon as possible.

If you have any further questions, please contact the person whose name and telephone number are shown at the beginning of this letter.

Sincerely yours,

[REDACTED]
District Director

Enclosures:
Publication 892
Forms 6018 (2)
Addressed envelope